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RUEHBJ/AMEMBASSY BEIJING 0862  
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RUEHNE/AMEMBASSY NEW DELHI 3329  
RUEHUL/AMEMBASSY SEOUL 6732  
RUEHTC/AMEMBASSY THE HAGUE 0514  
RUEHKO/AMEMBASSY TOKYO 4347  
RUEHCI/AMCONSUL CALCUTTA 0737  
RUEHCN/AMCONSUL CHENGDU 0738  
RUDKIA/AMCONSUL CHIANG MAI 0386  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEHGV/USMISSION GENEVA 2669  
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UNCLAS SECTION 01 OF 03 RANGOON 000668

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SUBJECT: SOCIAL PROJECTS BENEFIT PIPELINE VILLAGES

RANGOON 00000668 001.2 OF 003

¶1. (SBU) Summary: The controversial pipeline running from the Yadana gas field in the Andaman Sea to Thailand is expected to produce over \$800 million in revenue this year for its joint venture partners TOTAL, UNOCAL, PTTEP (the Thai government petroleum company), and the Myanmar Oil and Gas Enterprise (MOGE). While the GOB offers little to the residents of the region, TOTAL and UNOCAL have tried to be "socially responsible" by reforesting almost the entire pipeline route and implementing successful agricultural, educational, and health care projects among local villages. The joint venture investors plan to offer \$1.4 million to the local Wildlife Conservation Society to develop a major wildlife preserve in the area. End Summary.

#### A Profitable Pipeline

¶2. (SBU) On April 25, DCM and Econoff visited onshore pipeline facilities in Tanintharyi Division, southern Burma, that service the offshore Yadana gas field. The visit was at the invitation of UNOCAL representative David Peters (Note: Although merged with Chevron Texaco, UNOCAL retains its original name in Burma to avoid the trouble of a complicated and costly re-registration process. End note). The joint investors in the Yadana natural gas field, located 225 miles offshore, are TOTAL (31.24%), UNOCAL (28.26%), PTTEP (25.5%) and MOGE (15%). While revenues from the pipeline tariff are divided strictly according to percentage of ownership, production revenues are divided according to a cost sharing agreement that is based on a number of variables. This year, Peters estimates that the Burmese regime will earn about 60% of gross revenues, or over \$480 million from the consortium's approximately \$810 million total revenues.

¶3. (SBU) TOTAL, as the consortium's operating partner,

manages the pipeline from its Pipeline Control Center, located 5 miles from the coast, with 350 people employed on shore and 382 on the offshore Yadana platform. Seven GOB officials are also assigned to the on-shore facility, primarily to facilitate coordination with MOGE and to supervise local social programs. The pipeline currently delivers approx. 620 million cubic feet daily (MCFD) of natural gas to the Thai border, and 35-50 MCFD to a domestic cement plant and a small gas turbine generation plant in neighboring Mon State. PTTEP has a 30-year "take or pay" contract, valid until 2028. The GOB is upgrading its own narrow (18 cm.) pipeline, which feeds the old cement plant in Bago Division, into a larger 32 cm. pipe that would bring gas as far as Rangoon. Burma does not currently take its full entitlement of 20% of production. Peters told us that the GOB would most likely route any expanded domestic supply to new industrial projects, rather than using it to address the urgent needs of Burma's troubled electricity sector.

¶4. (U) The Burmese military, once an ominous presence in the pipeline region, now maintains a low local profile. Locals admitted that "bandits" remained a problem on the road north to Moulmein, but said that roads south to Dawei were now relatively secure. Most military camps along the pipeline route were abandoned, with the only obvious troop presence on the Thai border and at a few camps near the pipeline right-of-way.

#### It Takes A Village

¶5. (SBU) The undersea Yadana pipeline comes onshore near Kanbauk village, 35 miles north of Dawei township, and runs 40 km to the Thai border. The region is sparsely populated, with 40,000 inhabitants, mostly ethnic Burmans and Mon, along

RANGOON 00000668 002.2 OF 003

with 2,200 Karen in the highlands areas closest to the Thai border. The consortium spends \$1.3 million per year in ongoing expenses to support the social needs of 25 villages located near the pipeline Right-of-Way. TOTAL pays the employees of all social work projects directly, then bills the other three partners for a share of expenses. Newly replanted native vegetation covers the low hills on either side of the pipeline. From 1997 to 2003, a consortium-sponsored nursery project distributed 50,000 teak, ironwood, acacia, and other saplings annually to rebuild the area's forests.

¶6. (SBU) While the reforestation project helped make the pipeline's path less visible, local residents wanted more immediate returns from their planting efforts, so the consortium's nursery switched to cash crops, distributing 175,000 seedlings in the past year. The most popular are cashew and rubber trees, since the former products can be easily stored, and villagers can tap rubber throughout the year. The nursery also provides saplings for tropical fruit trees, cocoa, and betel nuts, but those products have proven hard to transport to distant markets.

¶7. (SBU) Many villagers, who previously worked on the pipeline or in the region's shrinking tin mining industry, are now successful farmers, according to the joint venture nursery's director. The consortium supports a loan program that offers up to K1.5 million (about \$1000) at 1% interest per month to set up new plantations. No borrower has defaulted since the loan program began. The consortium has also upgraded minor roads to improve access to transportation, and villagers now sell produce to passengers on buses plying the Dawei-Rangoon trail.

¶8. (U) The consortium also supports local efforts to raise pigs, poultry, and cattle. The consortium runs breeding centers and distributes livestock free of charge to local villagers, who then commit to give back one or two offspring from future litters. Veterinarians visit the farmers

regularly and offer training sessions. Other social programs in the pipeline area include schools, educational training, and a land compensation program.

#### Health and Habitats

¶9. (SBU) Emboffs also visited the 40-bed Kanbauk Hospital, where the joint venture provided funds for renovations, equipment, supplies and training. While the hospital was very modest by international standards (the main operating room was clean, but contained only a single light and a bed), it was far better equipped than most in Burma. A new ward is under construction, and the storeroom was well stocked with medical supplies. The hospital's two doctors treat 15,000 outpatients and 1,200 inpatients per year. 20% of the clinic patients come from beyond the immediate region, seeking better care. The joint venture also pays ten midwives who regularly travel between the district's 25 villages.

¶10. (SBU) According to the hospital director, public health in the pipeline region has improved significantly. Infant mortality has fallen from over half the national average in 1997 to one fifth the national average in 2003. Malaria mortality declined from 9 deaths per 1000 cases to fewer than 1 per 1000 in the same time period. The number of deaths from water- and food-borne diseases fell from 4.4 per 1000 cases in 1997 to 0.2 in 2004. The clinic prominently displayed recent public awareness campaign posters on Avian Influenza, HIV/AIDS, and Dengue Fever.

RANGOON 00000668 003.2 OF 003

¶11. (U) The consortium plans to provide \$1.4 million to develop a major new wildlife conservation area in cooperation with the Ministry of Forests and the local Wildlife Conservation Society. The park runs along the Thai-Burma border from south of Kyaunghwa in Mon State almost to Dawei. Twenty forestry officials now patrol the sparsely populated area and have reported sightings of wild elephants and evidence of a small population of tigers. The Thai government recently signed an MOU with the GOB to extend the park's protection across the border.

Comment: A Narrow Pipeline

¶11. (SBU) Comment: The controversy abroad over TOTAL's and UNOCAL's involvement in the Yadana pipeline project has never died, and a new Czech documentary will give further notoriety to allegations that the companies were complicit in the GOB's use of forced labor during pipeline construction. TOTAL and UNOCAL deny culpability, and prefer to focus attention on their social programs, which offer free seedlings, livestock, medicines, educational support and health care to 40,000 local residents. These residents in 25 villages have definitely benefited. But the vast majority of Burmese living elsewhere have not seen any benefits from the almost \$500 million flowing into regime coffers each year from Yadana. End comment.

VILLAROSA